SHIP MANAGEMENT TRENDS AND DEVELOPMENTS

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Ship Management: the Big Picture

- Ship owners are primary customers but charterers & regulators are highly influential.
- 58,000 vessels + > 6,000 new builds of miscellaneous asset types.
- US$30b annual spend on miscellaneous products & services*.
- Approximately 1.3M crew (officers & ratings) + 700K office support staff.
- Over 200 ship managers globally, of which 12 are in the premier league.
- Very fragmented supply industry with only a few managers managing more than 100 ships.
- 13% of number of ships are currently managed via outsourcing.

*2010 estimate by BCG
Ship Management: the Capital Structure

- The majority of large third party ship management companies are privately owned:
  - Anglo Eastern Ship Management
  - Thome Ship Management
  - Univan Ship Management
  - Executive Ship Management
- In most cases ownership is as part of a ship owning group:
  - Bernhard Schulte Ship Management
  - Columbia Ship Management
  - Northern Marine
- In some cases ownership is as part of a marine services group:
  - Graig Ship Management
  - Wilhelmsen Ship Management
- Some changes in ownership in last 10 years:
  - Wallem (Caledonia investments to private Norwegian investors)
  - Fleet Management (MBO from Noble)
- Limited interest to date by Private Equity Investors but:
Ship Management: the Pros

- Resilience to market cycles (not immunity!)
- High and rising barriers to entry especially tanker sector
- Asset light, low capex requirements
- ‘Lean and mean’ philosophy
- Strong cash flow
- Widening target audience (cargo interests and financial investors)
- Channel to the BRIC countries
- Inorganic growth opportunities
- High protection/limited liability of ship managers
- Brand strength: possibility of brand extension/service diversification
- Way of entering the shipping world for new investors
Ship Management: the Cons

- High reliance on people (supply shortages)
- Forex exposure
- Reputation risk viz major incident/accident and loss of oil major approvals
- High performance not fully rewarded by fees
- Fleet liabilities
- Limited ‘sex’ appeal for investors
- Difficulty to rate investment risk (partly due to no assets)

MITIGATING ACTIONS

- Succession Planning
- Financial and natural hedging
- Professional risk management
- Selling on value-added not on price
- Employ lots of accountants???
- Educate investors on global business
- Transparency
Ship Management: the Drivers

- Continued growth in the world fleet (>6,000 ships on order)
- Regulations (especially the Green Agenda)
- Manpower availability
- Convergence of bigger marine service providers and increasing partnering opportunities continue to expand in services:
  - Equipment manufacturer
  - Between service providers
  - Between service users and suppliers eg BOTS
- Investment in human resources and training
- Expansion in to BRICS
- Expansion into specialised sectors/untapped markets like Offshore
- Increase in customers’ requirements
V.Ships: The story so far

- Formed in 1984 with de-merger from Vlasov Parent (30 ships under management)
- 50% of shares acquired by senior mgmt in 1986
- GE acquires 20% of shareholding from Vlasov and management in 1994
- Close Brothers PE acquire 50% (Vlasov and GE exit) in 2003
- Secondary buy-out by Exponent of 50% (exit Close Brothers) in 2007
- 2011: strategic review...>1,000 ships.. OMERS becomes new financial investors in V.Group
V.Ships: Inorganic growth

1984 • Formation of V.Ships

1986 • Sale of 50% to Management

1994 • GE Capital acquires 20%

1998 • Celtic Marine acquired

1999 • VSL Shipbroking acquired

2000 • SSM & BGI acquired

2001 • Acomarit acquired

2002 • AMA/Clancey acquired

2003 • CBPE acquires 50% of V.Ships (V.Holdings)

2004 • Fraser Yachts acquired

2005 • AL Ships JV with KGAL

2006 • Martinoli acquired

2007 • Shipping Invest JV with CS & Partners

2008 • UMC acquired

2009 • CISM JV with China Shipping

2010 • Exponent acquires 50% of V.Holdings and rebrands as V.Group

2011 • RCC acquired

2008 • V.Group reorganisation

2009 • Formation of V.Ships Offshore

2010 • Acquisition of ITM

2011 • Acquisition off MUM

2010 • Formation of Ship Supply Chain Division

2011 • OMERS becomes new financial investor in V.Group
V.Ships: Market Position

- Leading supplier of a broad range of out-sourced services
- More than a ship manager
- One-stop-shop
- Ability to serve wide range of vessel types
- Global footprint including extensive network of seafarer recruitment offices

V.Ships Key Metrics

- 25,000+ Seafarers
- 3,000+ Customers
- Services for 1,000+ Ships of all types
- US$0.5bn Gross Income in 2010
- 70+ Office Locations
- 1,800+ Shore-Based Employees
V.Ships: Future strategy

- Ability to leverage flexible business model by developing client relationships
- Focus on organic business growth in established markets plus selective emerging markets eg: China, Brazil, Indonesia, Vietnam, Mexico
- Push harder/further into Asia and offshore
- Ongoing improvement in organizational efficiency and effectiveness
- Protect and strengthen the brand
- Revenue tied more to KPIs
- Focus on three Ps: People + Products + Process to deliver better customer service
- Crew retention and development (lifetime career, training etc)
- ‘Pure’ service offering but with virtual ship owner capability
- Strategic inorganic growth